

Message Text

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INFO OCT-01 EUR-25 ADP-00 AGR-20 AID-20 NSC-10 RSC-01

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FOR COMMERCE

E. O.11652: N/A

TAGS: ETRD, BE, EFIN

SUBJECT: IMPLICATIONS FOR US EXPORTS TO BELGIUM OF THE FOREIGN
EXCHANGE DEVELOPMENTS OF FEBRUARY, 1973

REF: STATE 077866

1. SUMMARY: FEBRUARY FOREIGN EXCHANGE RATE REALIGNMENT
HAS THUS FAR HAD A LIMITED BUT FAVORABLE EFFECT ON US- BLEU (BELGO-
LUXEMBOURG ECONOMIC UNION) TRADE BALANCE. WHILE IT IS STILL
FAR TOO EARLY TO QUANTIFY, OUR SAMPLING INDICATES THAT RETAIL PRICES
OF SOME US PRODUCTS, PARTICULARLY CONSUMER GOODS, ARE AT LEAST
RISING LESS RAPIDLY THAN THEY WOULD HAVE OTHERWISE. DOLLAR
PRICES OF AGRICULTURAL COMMODITIES TRADED IN WORLD MARKETS,
HOWEVER, ROSE IMMEDIATELY TO COMPENSATE FOR DEVALUATION:
SOME BELGIAN EXPORTERS (STEEL, TEXTILES, GLASS) ARE EXPECIALLY
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CONCERNED ABOUT MAINTAINING COMPETITIVENESS IN US AND THIRD MARKETS. WHILE SOME US MANUFACTURERS IN EUROPE ARE STUDYING POSSIBILITY OF SHIFTING SOURCING TO US, WE KNOW OF NO FIRM DECISIONS TO DO SO. REALIGNMENT MAY HAVE MADE DIRECT INVESTMENT IN BELGIUM SOMEWHAT MORE ATTRACTIVE. END SUMMARY.

2. IN GENEROUS SAMPLING OF US AND BELGIAN DISTRIBUTORS OF US PRODUCTS, WE HAVE LEARNED OF NO QUANTIFIED ESTIMATES OF IMPROVED SALES, PARTLY BECAUSE PRICES OF US PRODUCTS HAVE IN ANY CASE BEEN RISING RAPIDLY DUE TO STRONG US DOMESTIC DEMAND AND HIGHER WORLD MARKET PRICES. EVEN RESULTS OF DECEMBER 1971 REALIGNMENTS ARE INCONCLUSIVE, ALTHOUGH THEY INDICATE SOME ABATEMENT OF DETERIORATING US TRADE POSITION VIS-A-VIS BLEU. BF VALUE OF IMPORTS FROM US WAS DOWN BY 6.5 PERCENT IN 1972 (PARTLY DUE TO LOWER PRICES IN BF) COMPARED TO DECLINE OF NEARLY 20 PERCENT IN 1971. BLEU EXPORTS TO US INCREASED BY 17.6 PERCENT IN 1971 AND ONLY BY 2.6 PERCENT IN 1972. CONSEQUENTLY, EXPORTS TO US WERE 6 PERCENT OF TOTAL BLEU EXPORTS IN 1972 COMPARED WITH 6.7 PERCENT IN 1971. ON THE OTHER HAND, US SHARE OF BLEU IMPORTS WAS ALSO DOWN FROM 6.4 PERCENT TO 5.5 PERCENT.

3. IN GENERAL, BF RETAIL PRICES OF CONSUMER GOODS HAVE PROBABLY MOST QUICKLY RESPONDED TO DOLLAR DEVALUATION. THERE HAVE BEEN FEW ACTUAL PRICE MARK-DOWNS, HOWEVER, SOME BELGIAN IMPORTERS REPORT DOLLAR PRICE INCREASES SHORTLY AFTER DEVALUATION EQUAL TO OR EXCEEDING DEVALUATION MARGIN. WHILE IN SOME CASES ATTRIBUTABLE TO SPECIAL FACTORS (POME FRUIT HARVEST IN CALIFORNIA), MOST INCREASES SEEM MERELY TO REFLECT INCREASED PROFITS TO US EXPORTERS. DECREASES WERE PARTIALLY PASSED ALONG OCCASIONALLY WHEN IMPORTERS HAD LONG-TERM CONTRACT (ONE CANNED FRUIT IMPORTER USED MARGIN PARTLY FOR SALES PROMOTION AND PARTLY TO REDUCE RETAIL PRICES). BELGIAN OWNED FIRMS IMPORTING FROM THE US SEEM MORE WILLING TO PASS DEVALUATION "SAVINGS" TO CONSUMERS, PROBABLY BECAUSE THEY OPERATE IN MARKETS WHERE PRICE DIFFERENTIALS ARE MORE CRITICAL. AN IMPORTER OF US WOMEN'S CLOTHING (BALI) REPORTS, HOWEVER, THAT US EXPORT PRICE INCREASES HAVE ALREADY EATEN AWAY ANY POTENTIAL "SAVINGS" THAT MIGHT HAVE BEEN PASSED ALONG TO CONSUMER. WE SUSPECT THAT THIS IS OFTEN THE CASE, ALTHOUGH RETAIL PRICES FOR SOME US CONSUMER LIMITED OFFICIAL USE

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GOODS HAVE PRESUMABLY RISEN LESS RAPIDLY THAN THEY WOULD OTHERWISE HAVE DONE. US SUBSIDIARIES MARKETING IN EUROPE SEEM TO HAVE BEEN LESS WILLING TO REDUCE THEIR BF PRICES.

4. ONE FACTOR INHIBITING PRICE REDUCTIONS HAS BEEN THE CAP. CORN PRODUCTS CORPORATION, FOR EXAMPLE, TELLS US THAT IT HAS NO REASON TO LOWER ITS IMPORT PRICES, WHICH COME UNDER THE CAP.

FOR AGRICULTURAL PRODUCTS NOT UNDER THE CAP, MOREOVER, WORLD MARKET PRICES SEEM TO GOVERN. THE MAJOR BELGIAN SOYBEAN IMPORTER REPORTS THAT US EXPORT PRICES INCREASED BY THE FULL MARGIN OF DEVALUATION (FROM \$256 TO \$260 PER TON) IMMEDIATELY AFTER FEBRUARY 15 (AND HAVE CONTINUED TO RISE RAPIDLY BECAUSE OF SHORT WORLD SUPPLY TO \$365 AS OF MID- MAY). A MAJOR US CHEMICAL COMPANY TELLS US THAT ITS IMPORTS FROM THE US TEND TO BE SPECIALIZED PRODUCTS AND THAT THESE ARE GENERALLY PRICE INELASTIC. BULK CHEMICALS' PRICES ARE RULED BY WORLD MARKET AND HAVE NOT REFLECTED DEVALUATION.

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5. BELGIAN SUBSIDIARIES OF SOME US FIRMS ARE RE- EXAMINING FULL US PRODUCT LINES TO SEE WHETHER LOWER DOLLAR PRICES NOW MAKE US MADE PRODUCTS COMPETITIVE IN BELGIUM. IN SOME CASES, HOWEVER, US FIRMS ARE UNABLE BECAUSE OF HIGH US DEMAND TO SUPPLY PRODUCTS WHICH RECENT MARKET RESEARCH HAS INDICATED MAY NOW BE COMPETITIVE. A US BANKER STRONGLY BELIEVES THAT US WILL NOT BENEFIT MUCH FROM DEVALUATION UNTIL DEMAND IS CURBED IN US.

6. MULTINATIONALS OF US ORIGIN, NUMEROUS IN BELGIUM, ALMOST UNIVERSALLY REPORT A SERIOUS RE- EXAMINATION OF THEIR IMPORT

PROGRAMS FROM THE US. NONE HAS YET INFORMED US OF A DECISION TO SHIFT TO US SOURCING.

7. GOB OFFICIAL EXPRESSED SPECIAL CONCERN ABOUT REALIGNMENT'S EFFECT ON BELGIAN EXPORTS TO US AND THIRD MARKETS OF WINDOW GLASS, CARPETS, FILM AND PHOTOGRAPHIC CHEMICALS, AND STEEL. AGFA-GEVAERT AND STEEL EXPORTERS ARE COVERED AGAINST EXCHANGE RATE LIMITED OFFICIAL USE
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BY LONG-TERM CONTRACTS BUT ARE WORRIED ABOUT THE FUTURE. (AGFA-GEVAERT EXPORTS ABOUT ONE-THIRD OF ITS PRODUCTION TO THE US.) OFFICIAL BELIEVED THAT PRESENT PRICE TRENDS FAVOR US; U. E., BELGIAN AND OTHER EUROPEAN PRICES ARE RISING FASTER THAN US PRICES AND WILL PROBABLY CONTINUE TO DO SO. BELGIUM HAD 14.5 PERCENT WAGE INCREASE LAST YEAR AND THIS HAS NOT YET BEEN FULLY REFLECTED IN PRICES. BELGIAN PRICE INFLATION ALSO IS EXPECTED TO INCREASE BECAUSE OF HIGHER INFLATION RATES IN MAIN SUPPLIER COUNTRIES ,
SPECIALLY WEST GERMANY AND THE NETHERLANDS.

8. ACCORDING TO PROMINENT US INVESTMENT COUNSELLOR, US COMPANIES FIND DIRECT INVESTMENT IN BELGIUM MORE ATTRACTIVE THAN BEFORE DOLLAR DEVALUATIONS. UNDER 1970 ECONOMIC EXPANSION LAW, 75 PERCENT OF NEW CAPITAL FOR INVESTMENT PROJECTS IN "DEVELOPMENT ZONES" IS ELIGIBLE FOR GOB INTEREST RATE SUBSIDIES. THESE ARE NORMALLY AROUND 5 PERCENT (INVESTOR MUST PAY AT LEAST ONE PERCENT). INVESTORS MAY MAKE CAPITAL CONTRIBUTIONS IN KIND (MACHINERY, PATENTS, KNOW-HOW, GOOD WILL) AND US FIRMS NORMALLY DO SO. SINCE DEVALUATIONS, SUCH CONTRIBUTIONS ARE CHEAPER AND BOOK VALUE OF EXISTING FOREIGN INVESTMENTS IS HIGHER. THEREFORE, ADDED TO LOW, SUBSIDIZED COST OF RAISING LOCAL CAPITAL IS INCENTIVE OF LOWER COST OF CAPITAL CONTRIBUTION FROM US. CONSEQUENTLY

,
TOTAL COST OF NEW INVESTMENT (OR EXPANSION) IS LOWER AS WELL AS INITIAL INVESTMENT COST OF HOME FIRM. THIS IS NOT NECESSARILY A PERVERSE RESULT OF DEVALUATION. SOME 40 PERCENT OF US EXPORTS TO BELGIUM ARE BY MULTINATIONAL CORPORATIONS AND THESE WOULD INCREASE WITH INCREASED DIRECT INVESTMENT. ALSO, DEVALUATION ENCOURAGES CAPITAL EXPORTS FROM US IN KIND RATHER THAN IN FUNDS.

9. ABOVE MAY BE USED FOR PUBLICATION WITH COMPANY NAMES DELETED.
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